Photos by Kristina M. Schramm

The Chicago Transit Authority fund is rerouting almost $400 million.

Transit fund realigns, adds equity managers

By Barry B. Burr

CHICAGO — The Chicago Transit Authority pension fund restructured its equity investments, shifting almost $400 million of its $568 million fund and taking a more conservative posture in the stock market.

In the restructuring, the fund added five equity managers and dismissed one, said Paul J. Kole, the CTA's general finance manager, who also oversees the pension fund.

In addition, it retained four others, reducing the commitment to all but one of them.

The fund is pursuing a more conservative investment strategy, stressing dividend income over stock appreciation, said James Mullen, manager of finance and investments.

As a result, it lowered its equity allocation in two growth-oriented categories and raised the allocation in two income-oriented categories. In a growth category, the fund lowered its allocation to 25% of equity investments from 40%. In capital appreciation, it cut the allocation to 15% from 28%.

At the other end, in a combination growth and income category, the fund raised its allocation to 20% from 17%. In the income category, it increased its allocation to 40% from 15%.

Despite the more conservative approach, the fund increased its commitment to equities to its targeted 70% of assets from about 65%. Plus, it increased the number of its equity managers, to nine from five.

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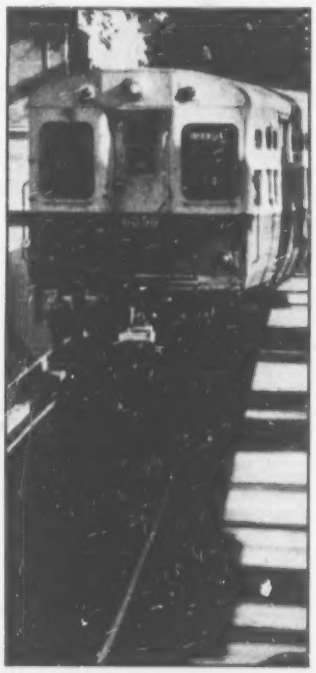

New fund draws total of $29.6 million

Michigan boosts venture cap

By Kimberly Blanton

MIDLAND, Mich. — The Michigan State Employees Retirement System and numerous corporations have invested almost $30 million in MBW Venture Partners, a high-technology venture capital partnership.

The Michigan pension system supplied $4.2 million of the $29.6 million MBW Venture Partners has collected so far, and the $9 billion fund has promised another $6.2 million on which MBW can draw later, said Paul Rice, Michigan's assistant administrator.

Michigan has made the largest investment by far, but numerous institutional investors have provided between $1 million and $2 million each. Other limited partners include the pension funds of Corning Glass Works, Cleveland-Cliffs Iron Co., Allen-Bradley Co., and Warner-Lambert Co., and one endowment, Lehigh University.

Three of the general partners of MBW, Philip McCarthy, Ian Bund and James Weersing, hope to attract more investors and close their fund at $50 million by year-end.

Owens-Corning Fiberglas Corp. invested corporate — not pension — assets to gain access to the technology of companies MBW will finance.

In an unusual move, one of the corporate pension investors, which did not want to be singled out, also chose MBW for that reason.

Insurance company and bank venture capital groups provided the remaining capital: State Mutual of America, First Interstate Equity Corp., National Bank of Detroit Equity Corp. and Mutual Benefit Life Insurance Co.

MBW Venture Partners will invest in high-technology companies in life sciences, industrial automation, semiconductors, computer hardware and software and communications, Mr. Bund said.

The partnership will have few geographical limitations on its investments. The people who set up MBW Venture Partners also were involved in an earlier venture capital fund, the Michigan Investment Fund, which invested solely inside the state.

MBW Venture Partners will be invested nationwide, although Mr. Weersing said the investments might tend to be centered in the areas where the principals are located. Mr. Weering is in Los Altos, Calif., Mr. Bund in Midland, Mich., and Mr. McCarthy in Chatham, N.J.

However, Mr. Rice of the Michigan pension fund believes MBW might attract some money to Michigan. Because the partnership's operation is based in Michigan, "We'll have to assume we'll be seeing more projects inside Michigan," he said.

MBW Venture Partners is starting at a time when high-technology companies, many of which went public in 1983, are faltering, but it

Continued on page 74

Curbs asked on N.J. fund

By Rose Darby

TRENTON, N.J. — The New Jersey Legislature is considering two bills — hotly contested but likely to pass — that could require the $10.5 billion state pension system to divest up to 95% of its current holdings.

A provision of one of the bills would require the system to invest exclusively in New Jersey companies, according to state officials.

The second bill calls for divestiture of companies doing business with South Africa. If passed, the bills could result in a loss of up to $1 billion for the fund because up to 95% of the state's portfolio would have to be liquidated, said Roland Machold, director of the New Jersey Division of Investment.

Proponents of the measures believe the bills could result in improved investment returns on state pension funds. Current returns are mediocre, they claim.

Bill 1308, sponsored by Alan Karcher, speaker and majority leader of the New Jersey General Assembly, contains provisions mandating all pension fund and state-managed investments fulfill at least one of seven principles:

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Late news

Continued from page 1

floor statement.

Sen. Edward M. Kennedy, D-Mass., is leading action in the Senate.

The bill would require pension plans that are integrated with Social Security to provide minimum benefits above the level of Social Security, according to Rep. Ferraro.

It also would change the minimum vesting standard to five years from 10, except for multiemployer plans where participants could switch regional plans within the same industry.

Also, the bill would allow a participant with a vested benefit of $7,000 or less to roll it over into a special account.

Exxon sells zeros

NEW YORK — Exxon Corp., through its subsidiary Exxon Capital Corp., sold $200 million of guaranteed zero-coupon notes last week at a price to yield of 11.64% (*see related story on page 35*).

The entire issue of 20-year securities was sold to Merrill Lynch International & Co.

Merrill Lynch was one of 19 investment houses to submit 52 bids for the issue in a dutch auction that closed Oct. 9.

Bids to go private fail

CHICAGO — More than 25% of attempts to take companies private in the first half of 1984 were aborted, according to W. T. Grimm & Co., merger consultants.

The firm said 52 companies announced their intention to go private in transactions worth $20.9 billion in the first half of the year.

However, 15 of the deals, worth $15.2 billion, have collapsed. But even excluding these deals, the 37 successful transactions recorded in the first half were more than the 36 transactions recorded in all of 1983.

The four largest deals that fell through were Kohlberg, Kravis & Roberts' attempt to buy out Esmark; the Diamond Land Group's effort to buy out the Continental Group; and two efforts to take over City Investing, one by Victor Posner and another by a private group.

TIAA-CREF benefits

WASHINGTON — The Teachers Insurance and Annuity Association-College Retirement Equities Fund will rejuggle retirement benefits for some of the participants in its annuity programs, following the U.S. Supreme Court's decision not to review a case involving the two funds.

The 2nd U.S. Circuit Court of Appeals ruled earlier this year that benefits must be sex-neutral for TIAA-CREF participants retiring after May 1, 1980.

TIAA-CREF had asked the Supreme Court to apply the Aug. 1, 1983, effective date of its Norris v. Arizona Governing Committee decision (*see related story on page 28*).

Most affected are participants who have retired since May 1, 1980, and chose single-life payment options.

In those cases, men will receive reduced benefits while those for women will be beefed up.

Also, the portion of the 760,000 active participants who select single-life options will have their benefits refigured for contributions made before Aug. 1, 1983, subject to court approval, according to TIAA-CREF.

There will be little or no effect on those who chose joint payment options or retired before May 1, 1980.

Wertheim appoints

NEW YORK — Wertheim Asset Management Services Inc. has made Ernest N. Mysogland Jr., president, and Steven W. Golann, senior vice president, managing directors of Wertheim-Philippe International.

Wertheim-Philippe is a joint venture between Wertheim Asset Management, in New York, and The Philippe Group, in Paris.

Criterion hires Press

HOUSTON — Thomas J. Press has joined Criterion Group as vice president and general counsel. Mr. Press will be responsible for general corporate legal affairs as well as legal matters pertaining to the investment advisory, venture capital and mutual fund activities of the firm.

Prior to joining Criterion, Mr. Press was a vice president and associate general counsel of Prudential-Bache Securities Inc., New York, and was responsible for regulatory matters involving the Securities and Exchange Commission and state securities' commissions.

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Endowments & foundations

Trustees act to 'attack' inflation

Performance numbers up

By Mark Westerbeck

NEW YORK — The investment performance of endowments and foundations has improved dramatically in the past five years, according to a consultant who tracks the institutions.

The most important factor in the investment performance of foundations and endowments is that their trustees have caught on to what it takes for performance to "trend upward," according to John K. Goodrich, president of Colonial Consulting Corp., a firm specializing in assisting endowments and foundations.

This education came at their expense during the recession of 1973-'74, during which time the funds "lost their shirts" and never have really come all the way back, he said.

"They eradicated the corpus by 25% to 30%," said Mr. Goodrich.

Then managed largely by banks, the foundations and endowments decided they had to become broader in their selection of professional investment managers.

"They recognized the volatility of the monetary environments we all live in," Mr. Goodrich said. "They all believed inflation to be the enemy, and they made the decision to attack the enemy. I think they're going to make it."

Mr. Goodrich has developed risk and return charts, based on the standard deviation of endowments' and foundations' quarterly returns, that show their performance has improved drastically during the past five years.

For returns during the five-year period, these funds were taking less risk than if they had invested completely in a Standard & Poor's 500 index fund, and were getting lower returns than the S&P 500.

For the past three years, however, the funds were more evenly balanced between those outperforming and underperforming the S&P, even though their risk still tended to be less than the market measure.

"This says the money management is getting better," said Mr. Goodrich. "The ability to take reasonable risk and get a higher rate of return is important. More funds are taking less or comparable risk but are taking a higher rate of return."

Using return information supplied by 78 funds holding total assets worth $7.7 billion, Mr. Goodrich has formed the Colonial Consulting Endowment and Foundation Data Base/Index.

Broken apart, the fund classes both show the depths to which they have sunk and how far they have come back. Both indexes start at 100 with the fourth quarter 1971.

• The index for endowments, which are more concerned with current yield in their stocks because of pressure for cash flow, hit its low point, 79.9, at the third quarter 1974. It experienced a steady climb since, with occasional backsliding, reaching its high point of 258 at the second quarter 1983, and stood at 243.99 at the last reporting period, second quarter 1984.

For the past year, performance was down 5.4%, worse than the S&P 500, which dropped 4.7%, and a compilation of pooled bond funds run by banks, down 0.6%. But it was better than the Salomon Brothers bond index, off 6.3%, and pooled bank equity funds, down 5.9%.

For three years, endowments have returned 11% compounded annually; for five years, 11.8% compounded annually.

Endowments, up 7.4% annually in the nearly 13 years of the index, outdid all the other measures except the S&P 500, up 8%.

• The index for foundations, which have taken a more conservative investment stance, reflects similar, although slightly lesser, performance.

Its low point also was the third quarter 1974, at 77.45. It had a slightly different high-water mark — 247.05 at year-end 1983 — and had dropped to 233.75 at the second quarter of this year.

Foundations had the same poor performance as endowments for the past year, down 5.4%. At 10.7% for three years, foundations matched the S&P 500 but had decidedly less than the Salomon Brothers bond index, 13.1%. They were the same as endowments for five years, 11.8%.

Since the inception of the Colonial index 13 years ago, foundations have experienced a 7% annualized return.

Big jumps during 1983 in the Colonial indexes reflect what the National Association of College and University Business Officers also found for its Comparative Performance Study, which tracks 172 endowment pools representing $10.9 billion in assets.

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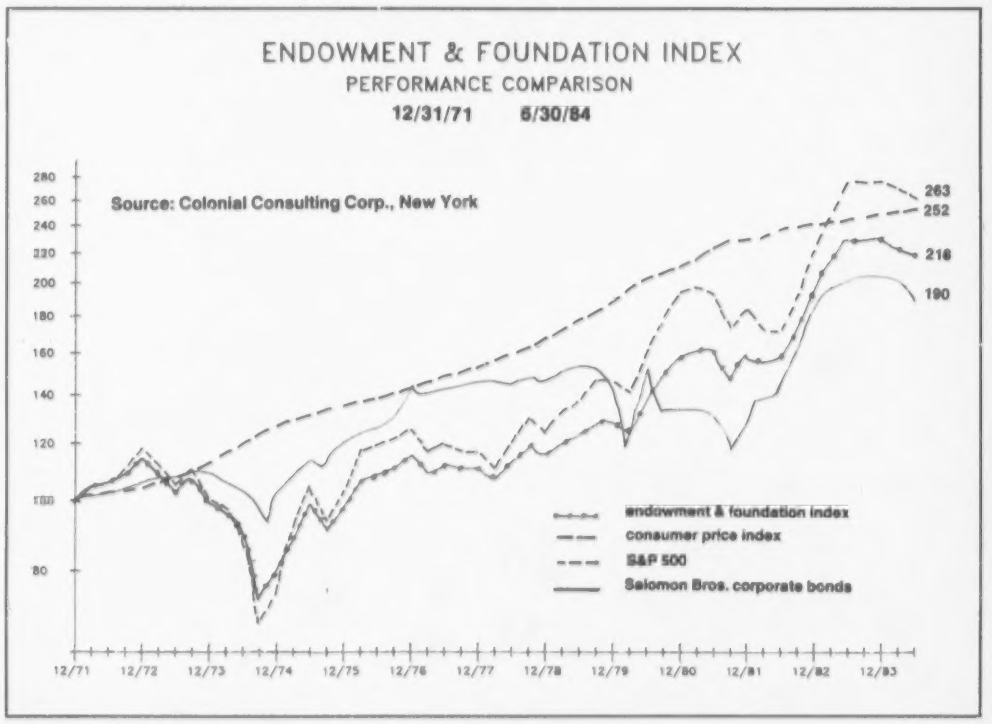

University	Tax-exempt assets millions
Harvard University, Boston	$2,451.0
University of Texas System, Austin, Texas	2,329.0
Princeton University, Princeton, N.J.	1,281.0
Yale University, New Haven, Conn.	1,089.0
Columbia University, New York	869.8
Stanford University, Palo Alto, Calif.	861.5
Mass. Institute of Technology, Cambridge, Mass.	673.5
University of Chicago, Chicago	539.0
Northwestern University, Evanston, Ill.	490.0
Rice University, Houston	488.8

Source: National Association of College and University Business Officers, from 1983 comparative performance study and investment questionnaire

Schools divided on international

By Rose Darby

NEW YORK — The prospect of investing internationally has college and university endowment funds divided, according to numerous treasurers and investment officers interviewed by *Pensions & Investment Age*.

One end of the spectrum includes schools that view international investment as an opportunity for diversification and income appreciation. In their view, the current climate of overseas markets poses an opportunity to buy in at bargain prices.

Such schools include Harvard University, Columbia University, the University of Notre Dame, the University of California and the University of Southern California.

At the other end are the schools shunning anything but U.S. investments. These include Carnegie-Mellon University, Northwestern University, Washington University in St. Louis, University of Pittsburgh and the University of Chicago.

The $2.6 billion Harvard University Endowment Fund just made the plunge to international by hir-

Continued on page 24

Fund plans venture cap move

By Marci Baker

NEW YORK — The Rockefeller Foundation, which entered the equity real estate and international waters earlier this year, is now looking into venture capital investing and could make its first commitment to the area by year-end.

Jack Meyer, treasurer and chief investment officer, said the move would be a continuation of a diversification drive geared toward increasing investment returns and reducing the overall volatility.

Since 1973, the fund's bond investments have turned in numbers close to the Shearson-Lehman Government/Corporate bond index, while its much larger commitment to stocks performed "slightly better than the Standard & Poor's 500," said Mr. Meyer.

"That's certainly adequate considering that stock investing is a negative sum game," he said.

However, the chief investment officer, who joined Rockefeller the first part of last year, intimated adequate is not quite good enough for the foundation. Rockefeller, like other foundations, must pay out 5% of its assets each year.

Indeed, despite market returns, the fund has grown little in real dollar terms since it was established in 1912. While the foundation's assets have mushroomed to $1.1 billion from $38.7 million in 1913, it is only at the $104.7 million mark when adjusted for inflation.

Although foundation assets totaled $968 million in 1972, it took eight years before it hit the $1 billion mark. At the same time, the fund in real dollar terms slipped to $104.7 million in value last year from $211.8 million in value in 1972.

Given its payout needs, Mr. Meyer said a more suitable annual investment return would be one exceeding inflation by 5% to 5½%. That's what the foundation is hoping to achieve through the diversified portfolio mix it is building.

"Overall, this foundation has to be more aggressive than pension funds because of the (payout requirements) we must meet," Mr. Meyer said. That means maintaining its traditionally high commitment to stocks and moving into alternatives that can promise more lucrative returns as well as help offset volatility.

Specifically, the foundation is looking to have 60% in domestic stocks, 10% in international equities, 10% in equity real estate, 10% in bonds, 5% in venture capital and the remaining 5% in cash in the next 1½ years.

Although the mix might vary depending on market conditions, Mr. Meyer said, "We think this is the most efficient mix for our needs." It also is one that gives the fund broad representation in virtually all asset classes, he said.

The Rockefeller Foundation took strides toward its new mix this year by stepping into the equity real estate and international arenas.

It gave $26 million to CIGNA Corp. to invest in the insurer's broadly diversified closed-end equity pool, Fund S. Another $46 million was split between two international stock managers — Morgan Grenfell Investment Services Ltd., New York, which received $28 million, and Compagnie de Banque et d'Investissement, Geneva, whose $18 million account represented its first U.S. tax-exempt client.

In moving into real estate and international investments, Rockefeller also established its first incentive fee arrangements. CIGNA has an equity interest in its Fund S. Mr. Meyer said plus [illegible] gets a percentage of [illegible] ongoing management fee [illegible] a percentage of the realized profits once the fund is terminated. CBI will be paid an incentive fee based on performance exceeding Capital International's Europe, Australia, Far East index.

"I'm a strong advocate of incentive fees for all managers," Mr. Meyer asserted. "A manager is more inclined to go out and nickel and dime for the best deal when he's got a stake in the (appreciation of his account)." Rockefeller's ultimate commitment with venture capitalists likely will be incentive-fee oriented because most partnerships receive a portion of realized profits, Mr. Meyer said.

Continued on page 21

LARGEST INDEPENDENT FOUNDATIONS BY ASSETS

Name	Assets	Total Giving	Fiscal Date
Ford Foundation	$3,529,188,000	$103,978,388	9/30/83
Johnson (The Robert Wood) Foundation	1,238,203,255	54,858,519	12/31/83
Rockefeller Foundation	1,119,363,698	36,802,186	12/31/83
Kellogg (W. K.) Foundation	1,052,493,408	54,647,164	8/31/83
MacArthur (John D. and Catherine T.) Foundation	990,326,359	22,283,124	12/31/82
Mellon (The Andrew W.) Foundation	935,399,569	59,258,753	12/31/82
Pew Memorial Trust	908,994,894	57,474,993	12/31/82
Kresge Foundation	792,086,846	24,720,000	12/31/83
Lilly Endowment, Inc.	774,746,001	44,145,000	12/31/83
Hewlett (The William and Flora) Foundation	576,604,594	23,895,915	12/31/83

Source: *Supplement to The Foundation Directory, Edition 9* (The Foundation Center, 1984).

Independent foundations account for about 80% of the total number of grantmaking foundations, and award about 75% of the foundation grant dollars.

Schools . . .

Continued from page 13

ing its first international manager, Grantham, Mayo, Van Otterloo in Boston, to run $25 million in foreign equities, said Walter M. Cabot, president of the endowment.

"Obviously $25 million isn't much of a start for a portfolio of our size," he said. "At the right place, at the right time, I hope we would be adding to that."

At Columbia University, Schroder Capital Management International, New York, has been doing foreign investment for the $300 million endowment fund for more than two years, said John H. Marchesi Jr., director of investments.

The school recently added $5 million to its existing $5 million investment. The new amount, plus portfolio appreciation, brings the total in foreign equities to $13 million, Mr. Marchesi said.

" 'The question now becomes, 'Should we put more money overseas?' " he said. "It's tough to call right now."

Many smaller endowment funds have been investing through the international pooled fund managed by The Common Fund, in Fairfield, Conn.

Its growth offers a good yardstick by which the enthusiasm of schools for international can be measured. The commingled international fund has grown to $130 million in little more than a year of existence, said George Keane, president.

The pooled fund recently received a new investment of $2 million from the University of Notre Dame, the school's first foreign commitment, said the Rev. Richard Zang, investment officer.

While it hasn't been finalized yet, it is believed the $250 million Notre Dame endowment fund likely will target 5% to 10% to international investment, he said.

The University of California contributed $2 million to the Common Fund's international portfolio, bringing the $500 million endowment fund's foreign investment to $5 million, said Patricia Small, assistant treasurer.

Also on the hot end of the investment spectrum is the $225 million endowment fund of the University of Southern California. "We've been contemplating adding to our investment in the Common Fund, between now and December," said Lyn Hutton, treasurer.

"This is partly because international markets have gotten beaten up fairly substantially. We're looking at it now from almost a contrarian point of view, that now might be the time to buy."

Among those taking the opposing view, some are shying away from foreign investment because of fear that overseas stocks have overblown price-earnings ratios.

"At the moment, we believe the domestic market is more attractive, so we're almost entirely invested domestically," said a spokesman for the $560 million total endowment fund at Northwestern University.

"If domestic companies' P/E ratios get as high as those of Japanese companies, and the Japanese companies' P/Es declined to where they are here, then we'd be likely to reverse out position."

Jerry Woodham, treasurer of Washington University in St. Louis, said, "In looking at the broad indexes, it's not clear that higher performance is there."

The only two reasons to be in international are to dampen volatility and to pick up higher performance, Mr. Woodham said. "And with the percent of money we'd invest, which is no more than 5% or 10% of our equity exposure, the decrease in volatility wouldn't come to enough," he added.

There are $300 million in U.S. equities in Washington University's fund, he said.

Then there are the schools whose officials doubt they have enough expertise to invest overseas advantageously.

"The international field necessitates a particular knowledge of currencies, and we don't have the expertise," said Mary Petrie, treasurer for the $550 million total University of Chicago endowment fund. "We have no present intention of entering that market because there are tremendous opportunities here, which we can watch more closely and carefully."

The middle of the spectrum is occupied by schools with existing international managers or shares in the international fund, but with full commitments that won't be increased in the near future.

That group includes the endowment funds of Stanford University, Yale University, Duke University and Cornell University.

Stanford and Yale have 10% of the equity portion of their endowment funds in international investment. While both schools are thought of as leaders in the move toward international investment, the present holds no lure for further commitments.

Yale's endowment fund invests internationally through Rowe Price-Fleming International Inc., Baltimore, and State Street Bank & Trust, Boston. Stanford invests overseas through G.T. Capital Management, San Francisco, and Rowe Price-Fleming International.

Cornell's roughly $400 million endowment fund employs Schroder Capital to invest about $12 million for it internationally; Duke's $200 million endowment fund has $2 million to $3 million in foreign equities, managed by Rowe-Price Fleming. ■

When there already seem to be enough investment management firms, why start a new one?

AN INTERVIEW WITH SAMSON WANG, PRESIDENT, BEACON CAPITAL MANAGEMENT

What can you offer that hasn't already been offered? Well, we think that Beacon's particular mix of thorough research, distinctive qualitative and quantitative analysis and, perhaps most of all, excellent personnel can provide clients with superior service. And, of course, results. We think there's always a place for that.

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Any specific recommendations for 1984? Sure. Just call us for an appointment: (212) 530-3758.

Beacon Capital Management

Performance figures . . .

Continued from page 13

For the year ended June 1983, these pools, with an average of 57% in equities, returned 42.2%.

The association's longer term evaluations were brighter than Colonial's. Annualized three-year returns were 16.7% compounded annually; five years, 14.6%; and 10 years, 9%. The 10-year return, helped significantly by the one-year performance for equities through June 1983, kept pace with inflation as measured by the Consumer Price Index, which was 8.4% during that time.

Prior to that last year, endowment returns had lagged inflation, the association reported. "However, since most institutions have been spending approximately 5% to 6% annually of their total return to help meet operating expenses, the real growth in endowments has not kept pace with inflation," was the association's official position. "In real terms, endowment purchasing power is far below that of a decade ago."

Mr. Goodrich pointed out the numbers in his endowment index are slightly better than those in the one for foundations because endowment trustees reacted to their mandate to constantly turn out support capital.

"Faced with inflation right up front, they got smarter quicker," he said. "As a practical matter, (foundations and endowments) persevered. "Like the British, 'Into the valley of death rode the 10,000.' They had to pay the schools, they had to support the symphonies. It got done. They weathered the storm. They're coming back, and they're coming back well."

Changes in investment philosophy made during the time of the Colonial index were sparked by poor past performance and trustee boards that became more homogenous and enlightened in their investment views.

Tackling the issues — "How much money do we have to spin off, how much do we need to keep this going" — the boards made "hard and reasoned decisions," devised objectives to achieve steady growth and hired new managers, said Mr. Goodrich.

"In 1974, they (endowments and foundations) must have sold stocks or held the wrong ones," he said. "In 1979, the change took place. They started to track the S&P; they learned; they stopped losing money in down markets. They realized they can't do what they did in 1974 and survive."

Stock holdings at the second quarter of 1984 found endowments 51% invested in equities and foundations, 72%.

"The endowments are allocating their assets more freely than foundations, indicating a more progressive approach to management. They're getting more risk averse," Mr. Goodrich said.

Foundations and endowments have pressures that retirement plans don't face. The Department of Labor stipulates corporations must fund their pension plans; the foundations and endowments have to go find their contributions and be self-perpetuating.

In addition, foundations must pay out 5% of their assets each year, according to Internal Revenue Service regulations.

"The bogy has been inflation," said Mr. Goodrich. "If you strip off all the income from these things and you leave the corpus where you've found it in absolute real terms, you've lost the game. The predispositon of the foundations and endowments was to strip off the income. The issue is to spin off the income and not let the corpus shrink. It's a double-edged sword. If your corpus doesn't continue to grow, you can't afford to give off income."

The funds lived fine on bonds until the Ford Foundation issued a book in the early 1970s, "Funds for the Future," that professed the real rate of return to be found in stock investment. The funds acted, just in time to "get hammered" beginning in 1973, Mr. Goodrich said. ■

Mutual funds made option

AUSTIN, Texas — The Optional Retirement Program of the University of Texas System has started offering mutual funds as an investment choice, according to university officials.

Claude Hempel, personnel director, said the Fidelity Investments' family mutual funds are being made available for the first time to eligible employees at the system's 14 campuses. Fidelity "was the first to satisfy all our requirements," he said.

The Optional Retirement Program, a defined contribution plan, is available to faculty, librarians and non-classified employees. Certain university system employees may elect to participate in the Teacher Retirement System of Texas, a defined benefit plan for state public school teachers.

Texas was the first state to approve legislation creating an optional retirement program offering higher-education faculty a choice to opt out of the teacher retirement system in favor of another plan, according to W. Humphrey Bogart, president of the Dallas-based subsidiary Fidelity Investments Southwest.

"Previously, the ORP allowed participating employees to choose their investment options only from insurance companies," Mr. Bogart said. "But in 1981, the Texas Legislature passed legislation that permitted the use of mutual funds as a retirement option if approved by the university."

When the program was introduced in 1968, more than 70% of the state's eligible faculty switched to the program, said Mr. Bogart.

He said the mutual fund program being offered at the University of Texas falls under section 403(b)(7) of the Internal Revenue Code. ■

How to design a more efficient flexible compensation plan.

Draw on Peat Marwick's unequalled tax experience and our computer systems and human resources expertise.

The future of compensation is to be flexible. The benefits to employees are obvious. Recently, however, questions have arisen about the tax implications of some programs.

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Price drop-off follows record year of IPOs

By Kimberly Blanton

The stock prices of well more than half the largest companies that went to the public market for the first time in 1983 have dropped.

Stock prices have fallen off in 81 of the 136 companies that held an initial public offering in 1983 at $15 per share or more, according to data from IDD Information Services Inc.

However, the often-repeated excesses in 1983's initial public offerings of high-technology companies are not the entire story.

Thirty-two of the 52 high-technology companies with offering prices of more than $15 per share have been battered in the stock market since they were first issued last year. But the prices of 49 of the 84 companies that could not be called "high-tech" also have declined.

The IDD data tallies the average percentage change in price of companies between their initial public offering in 1983 and Sept. 30, 1984. All companies in the study had an initial offer price of $15 per share or more. It excludes companies that no longer are trading because they have failed or have been acquired.

Nevertheless, in the disappointing stock market that followed last year's record number of initial public offerings, several industries can be read in hindsight as having been fit for a public offering — and not offered just because the market would take anything.

The stock prices of companies in health care and service industries have risen on average.

But success is mixed. The much-publicized problems in high-technology have diverted attention from other sluggish companies in manufacturing and retail.

Underwriters, and not just their issuing clients, were caught up in the raging stock market of 1983. A look at after-offering stock price performance reveals the firms whose clients had the most success.

Hambrecht & Quist Inc., a veteran in bringing high-technology companies public, has had success with some of its IPOs in that industry. But many major Wall Street and smaller regional investment bankers shared in underwriting weak issues.

Two high-technology companies — Automatix and Information Resources — that Hambrecht & Quist brought to market in 1983 have run up 42.85% on average since their offerings, according to data taken from statistics supplied by IDD Information Services.

One of Hambrecht & Quist's success stories was the initial offering of Information Resources, a market researcher for consumer products. Its price rose 130.43% between its offering on March 4, 1983 and the end of September 1984; the Dow Jones Industrial Average rose only 5.76% in the same period.

Donald Rydberg, treasurer, implied Information Resources' stock might have been issued low. It went public at $22 per share and closed at $41 on the first day of trading.

Although the Chicago company is classified as high-technology, Mr. Rydberg suggested its success lay in its business of providing a service and not a product.

In making a product, "competition can kill you," he said. Also, producers have "the additional problem with trying to project supply and demand of inventories. They can get overleveraged and overextended in the way they recognize sales," he said.

The average price of the 21 manufacturing companies that went public in 1983 traced by IDD through September 1984, dropped 12.36%.

The technology companies lead managed by the other three investment banking firms known as technology specialists watched their clients' stock prices drop on average.

Two technology companies, Smith Laboratories and Gigatronics, brought to market by Robertson, Colman & Stephens, dropped an average 29.64%.

The stock prices of four of Alex. Brown & Sons Inc.'s underwritings dropped a moderate 10.06% on average. L.F. Rothschild, Unterberg, Towbin brought seven such companies to market in 1983, and has seen their prices drop an average 30.12%.

"I don't think the big (underwriters) have had a hell of a lot more success than the small companies," asserted Jules Marx, managing director, Whale Securities Corp.

The statistics bear him out. J.C. Bradford & Co. brought three high-technology companies to market at $15 or more per share, and their prices rose an average 18.27%. William Blair & Co. brought one company to market, and its price rose 15.83%; Kidder, Peabody & Co. Inc.'s two companies rose 12.5%, and E.F. Hutton & Co. Inc.'s one company rose 11.76% in price.

The remaining firms have seen their clients stock prices drop:

- Morgan Stanley & Co. Inc., -12.51% (six companies).
- Goldman, Sachs & Co., -13.13% (1).
- F. Eberstadt & Co., -15.59% (2).
- Lehman Brothers Kuhn Loeb Inc., -23% (4).
- Blythe Eastman Paine Webber, -34.42% (3).
- Wertheim & Co., -36.81% (1).
- Merrill Lynch Capital Markets, -38.76% (4).
- Prudential-Bache Securities Inc., -40.78% (3).
- Dean Witter Reynolds Inc., -50% (2).

Continued on page 34

Domestic equity underwritings
Lead managers (Jan. 1 - Sept. 30, 1984)

Investment banker	millions
Goldman, Sachs	$1,774.7
Morgan Stanley	1,064.5
Merrill Lynch Capital Markets	881.9
Salomon Brothers	750.4
First Boston	746.7
Shearson Lehman/American Express	690.1
Kidder, Peabody	546.3
Drexel Burnham Lambert	431.2
Paine Webber	294.2
Lazard Freres	237.0
Smith Barney, Harris Upham	158.9
Dean Witter Reynolds	157.4
Prudential-Bache Securities	145.9
Alex. Brown & Sons	125.6
Bear, Stearns	124.4
Top 15 total	**8,129.2**

Source: Securities Data Co. Inc., New York

Domestic debt underwritings
Lead managers (Jan. 1 - Sept. 30, 1984)

Investment banker	millions
Salomon Brothers	$15,476.2
Drexel Burnham Lambert	5,568.4
First Boston	5,492.9
Merrill Lynch Capital Markets	4,774.5
Shearson Lehman/American Express	3,998.0
Goldman, Sachs	3,176.8
Morgan Stanley	1,961.7
Paine Webber	1,034.4
Prudential-Bache Securities	992.1
Dean Witter Reynolds	709.2
Kidder, Peabody	459.3
Bear, Stearns	365.1
E.F. Hutton	336.5
Smith Barney, Harris Upham	199.5
Edward D. Jones	165.8
Top 15 total	**44,710.4**

Source: Securities Data Co. Inc., New York

Drexel Burnham advances to 2nd in debt underwriting

By Kimberly Blanton

NEW YORK — Drexel Burnham Lambert Inc. continued to climb the ladder during the third quarter, displacing First Boston Corp. as the second-ranked underwriter of corporate debt when credit is given only to the lead manager.

Drexel Burnham, however, still is far behind Salomon Brothers Inc., which acted as lead manager for 131 issues of $15.476 billion of all types of debt securities in the first three quarters of 1984, according to data by Securities Data Co. Inc., New York.

In the three quarters, Drexel Burnham Lambert lead managed 49 issues totaling just one-third of Salomon Brothers' volume, $5.568 billion.

Next were First Boston, $5.493 billion in 69 deals; Merrill Lynch Capital Markets, $4.775 billion in 50 deals; Shearson Lehman/American Express, $3.998 billion in 46 deals; Goldman, Sachs & Co., $3.177 billion in 34 deals; Morgan Stanley & Co. Inc., $1.962 billion in 20 deals; Paine Webber Inc., $1.034 billion in 10 deals; Prudential-Bache Securities Inc., $992 million in 14 deals; and Dean Witter Reynolds Inc., $709 million in four deals.

Securities Data Co.'s data is net proceeds from issues, not face value, and excludes best efforts deals and debt-equity swaps.

The 201 issues of convertible and non-convertible debt issued in the third quarter of 1984 amounted to $18.784 billion. This brought the total so far this year to $45.437 billion in 512 deals. Debt issues in the first three months exceeded the volume for the same period in 1983, $42.382 billion in as many deals, 510.

In the less active equity market, Goldman, Sachs maintained the first place for issues in which it acted as lead manager, $1.775 billion, and Morgan Stanley held at second, lead managing $1.065 billion. Merrill Lynch has greatly improved its ranking, acting as lead manager of $882 million equity issues. It moved up to third for the first three months from sixth at the first half of 1984.

Common stock issues were

Continued on page 36

Net proceeds from domestic issues

	3rd quarter, '84		1st 9 mos., '84	
	$ mil.	No. of issues	$ mil.	No. of issues
Common stock	2,201.3	131	6,364.0	432
Convertible debt	1,551.0	17	2,431.7	37
Non-convertible debt	17,232.5	184	43,005.4	475
Preferred stock	870.5	19	3,088.5	53
Total	**21,855.3**	**351**	**54,889.6**	**997**

Source: Securities Data Co. Inc., New York

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October 1, 1984 Los Angeles, California

Drexel Burnham . . .

Continued from 33

steady in the third quarter of 1984: $2.20 billion equity was issued in 131 deals. This is about half the volume of equity issued in the entire first half of 1984, $4.16 billion. For the first three months of 1984, common stock issues totaled $6.36 billion.

Common stock issues for the third quarter and the year to date are well behind last year's levels of $8.956 billion and $30.174 billion, respectively.

Preferred stock issues also fall short of last year's levels. In the third quarter of 1984, companies issued $871 million preferred stock in 19 issues, down from $1.410 billion in 27 issues a year earlier. The total value of the 53 preferred stock issues this year was $3.089 billion, against $7.046 billion in the first three months of 1983.

Goldman and Morgan Stanley continued to stay at the top of the ranking when credit is given only to lead underwriter of equity issues. Goldman, Sachs lead managed 28 issues worth $1.775 billion, followed by Morgan Stanley, with $1.065 billion in 19 deals. These were their rankings at the end of the first half.

Although Merrill Lynch ranked third in the dollar volume ($882 million) of equity deals in which it was lead underwriter, it handled the most deals, 34. Salomon Brothers stayed at fourth, acting as lead manager for 14 issues worth $750 million, followed by First Boston, $747 million in 14 issues; Shearson Lehman/Amex, $690 million in 19 deals; Kidder, Peabody & Co. Inc., $546 million in 17 deals; Drexel Burnham Lambert, $431 million in 18 deals; Paine Webber, $294 million in 16 deals; and Lazard Freres & Co., $237 million in 5 deals.

Some firms moved around in the dollar rankings of deals handled in the third quarter when compared with the second quarter.

Merrill Lynch moved to third from sixth in credit to lead manager, while First Boston slipped to fifth from third and Drexel Burnham fell to eighth from fifth.

Merrill Lynch ranked first in the dollar value — $2.742 billion — of the 60 deals in which credit is given to both managers and co-managers.

Salomon Brothers ranked second when credit is given to manager and co-manager in 29 equity deals worth $2.311 billion, followed by Shearson Lehman/Amex, $2.153 billion in 38 deals; Goldman, Sachs, $1.941 billion in 32 deals; First Boston, $1.455 billion in 25 deals; Morgan Stanley, $1.433 billion in 23 deals; Kidder, Peabody, $980 million in 28 deals; Drexel Burnham Lambert, $834 million in 27 deals; Dean Witter Reynolds, $686 million in 23 deals; and E.F. Hutton & Co. Inc., $532 million in 21 deals.

Salomon Brothers continues to dominate in both the number and dollar volume of debt deals, whether credit is given only to lead underwriter or to all managers and co-managers.

Salomon Brothers was lead manager in 131 deals for $15.476 billion.

Drexel Burnham was a not-so-close second, managing $5.568 billion in 49 deals, followed by First Boston, $5.493 billion in 69 deals; Merrill Lynch, $4.775 billion in 50 deals; Shearson Lehman/Amex, $3.998 billion in 46 deals; and Goldman, Sachs, $3.177 billion in 34 deals. The remaining firms lead managed less than $2 billion each.

Merrill Lynch moved up in the rankings for credit to lead manager in debt issues, as it did in equity issues. Merrill Lynch ranked fourth at the end of three quarters, up from sixth place at the end of the second quarter, and it displaced Shearson Lehman/American Express.

Salomon Brothers is well ahead in the debt market no matter how the rankings are tallied. When credit is given to all managers and co-managers, Salomon Brothers is first in the first three quarters of 1984: it was involved in 183 deals worth $22.874 billion.

Merrill Lynch ranked second with 134 deals worth $13.672 billion, followed by First Boston, $13.201 billion in 124 deals; Goldman, Sachs, $11.127 billion in 94 deals; Shearson Lehman/Amex, $6.643 billion in 76 deals; Drexel Burnham Lambert, $5.845 billion in 53 deals; Morgan Stanley, $4.278 billion in 37 deals; Dean Witter Reynolds, $3.171 billion in 26 deals; Kidder Peabody, $2.590 billion in 23 deals; and Paine Webber, $2.307 billion in 18 deals. ■

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Tallahassee: Florida committed $795 million to 11 equity firms.

Florida adds 11

By Barry B. Burr

TALLAHASSEE, Fla. — In its latest and most sweeping move, the Florida State Board of Administration hired 11 equity managers, committing a total of $795 million.

Emery "Jay" Yelton, executive director, said the board hired two special equity managers, giving each $60 million; three growth-oriented managers, giving each $75 million; and six value-oriented managers, also giving each $75 million.

The special equity managers are Eagle Asset Management Corp., St. Petersburg, Fla., and Stein Roe & Farnham, Fort Lauderdale, Fla.

The growth-oriented managers are Fred Alger Management Inc., New York; Alliance Capital Management Corp., New York; and Bessemer Trust Co. of Florida, Palm Beach.

The value-oriented managers are Barrow, Hanley, Mewhin-

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American Airlines boosts dedication

By Fred Williams

DALLAS — American Airlines Inc.'s pension fund has restructured its dedicated bond portfolio and increased the portfolio's holdings by $100 million to cover additional retired lives liabilities incurred during the past two years.

The $1.1 billion American Airlines fund now has about $600 million invested in its dedicated portfolio, said W.F. Quinn, assistant treasurer.

American first established its dedicated portfolio in 1981 and has restructured the portfolio periodically since then to reflect changes in employment patterns at the airline.

During the past two years the company has been offering early retirement to its employees, an option which has been elected by "several hundred" employees, Mr. Quinn said.

In the latest restructuring, about $450 million worth of new securities were purchased and another $350 million in holdings were sold, increasing the market value of the portfolio by about $100 million, Mr. Quinn said.

He said American put out for bid the opportunity to execute the transaction to two investment bankers. The bid eventually was awarded to First Boston Corp., which executed the transaction on behalf of the American pension fund.

He said American decided to bid the brokerage transaction "because we felt we could get a lower cost portfolio through the bidding process."

Mr. Quinn said the anticipated "blended rate of return" on the newly restructured portfolio is about 13%. When initially established in 1981, the anticipated rate of return was 15%.

American's dedicated portfolio is managed internally, said Mr. Quinn, in a "reasonably active" fashion. Managers monitor the portfolio and the market continuously to maintain the maximum rate of return on the investments, he added.

Mr. Quinn called the most recent activity "reoptimization" of the portfolio, in order "to better meet our liabilities to include the newly retired people."

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Auto union wins voice in investments at GM

By Joel Chernoff

DETROIT — The United Auto Workers has gained a limited voice on the investment of General Motors' pension plan for organized workers, and might accomplish the same for a similar Ford plan.

An agreement reached at the same time as General Motor Corp.'s new contract with the union provides that up to 5% of net new pension contributions will be invested in residential mortgages and other "socially desirable" investments.

If the provision had been in effect last year, the targeted investments would have amounted to $20 million, a UAW summary said.

In addition, the UAW may make annual recommendations that the $8.2 billion fund for hourly workers not invest in seven companies.

Criteria for disinvestment were not spelled out, but likely would include whether firms with economic ties to South Africa adhere to the equal employment guidelines of the Sullivan Principles.

The Rev. Leon Sullivan, creator of the principles and a Baptist minister, sits on GM's board. The Rev. Sullivan said he was not directly involved with the negotiations, but was "very pleased" with the results.

Similar restrictions are included in the UAW-Ford Motor Co. contract, which is pending ratification, except the Sullivan Principles would be the sole basis for disinvestment recommendations.

The apparent trade-off for the auto companies is they would be able to invest a portion of collectively bargained pension assets with in-house management.

Under the GM agreement, the company will be able to handle internally up to 20% of the net of the hourly plan assets minus passively managed assets and U.S. government and agency securities.

The Ford provision is similar, except that in-house management would be limited to 10% of the net assets. Ford has roughly $3 billion in hourly plan assets, but has a substantial portion of its assets in index funds.

GM recently started moving assets in-house from its $8.4 billion salaried plan this year, after L. Guy Palmer II became director of internal pension asset management. Ford has been running part of its $4.5 billion in salaried plan assets in-house for some time.

The socially oriented investment provisions follow the precedent set in the 1979 contract with Chrysler Corp.

They reflect longtime union concerns that pension assets generated by collective bargaining help union members and not be adverse to their general societal interests. Under the Chrysler contract, 10% of new net pension contributions were to be invested in home mortgages in areas where UAW members lived, as well in as nursing homes, health maintenance organizations, day-care centers and other socially desirable investments.

Also, a joint labor-management advisory panel was created to recommend the pension fund avoid investing in five South Africa-related firms that refuse to meet the Sullivan Principles.

The lack of new pension contributions during Chrysler's troubled years deterred fulfillment of the first part of the provision, but the UAW has exercised its right to annually list companies, now up to 10, which fail to meet the Sullivan Principles.

The pending Ford proposal would have up to 5% of net new contributions invested in residential mortgages and other socially desirable investments.

Net contributions are defined as the annual contribution minus those benefit payments exceeding yearly investment income (but not including realized and unrealized investment gains).

The Ford proposal also would restrict home loans to "communities where there are substantial num-

Continued on page 84

Teamsters to hire Eastdil, Karsten

Fund liquidating realty

By Mark Westerbeck

CHICAGO — Eastdil and Thomas L. Karsten Associates have tentatively been chosen as advisers for the liquidation of real estate assets held by the Teamsters, Central States, Southeast & Southwest Areas Pension Fund, according to trade sources.

The fund's named fiduciary, Morgan Stanley Inc., made the selection and was assisted by the consulting firm Pension Realty Advisors Inc., San Francisco.

Eastdil and Karsten join Victor Palmieri and Co. Inc. in the handling of a dwindling pool of assets estimated to be about $500 million.

The selection of the two advisory firms is unusual in several respects:

• They will be involved in the disposition of the Central States assets, not in the acquisition of new property.

• It puts Morgan Stanley's real estate staff on the "buy side" of the table, instead of its more accustomed marketing posture.

• The status of the Central States fund — under scrutiny by the courts, the Department of Labor and even Congress — applied an uncommonly tight blanket of silence that affected everyone contacted who was remotely involved in what was, in essence, a real estate adviser search.

At presstime, contracts still were being negotiated and the matter was being presented by Morgan Stanley to the Teamsters trustees. None of the principals would discuss the matter, and no one familiar with it would talk for attribution.

Further, servicing the relatively small liquidating portfolio is not regarded as a lucrative venture, with the advisers breaking even or possibly losing money, sources said. They said advisers were interested in the Teamsters real estate because it was possible the winners of the search would have a leg up on others when the pension fund begins to make equity investments, expected when the liquidation is complete.

Morgan Stanley reportedly made clear to prospective advisers that winning the liquidation account would not directly tie into the selection of equity advisers, but it also has not dispelled the notion that Eastdil and Karsten have an advantage.

When Morgan Stanley took over management of the fund's assets from the Equitable Life As-

Continued on page 85

Late news

California narrows list

SACRAMENTO, Calif. — The trustees of the $13 billion California Teachers' Retirement System have narrowed the list of prospective bond managers as they prepare to receive reports that could call for doubling the system's equity exposure within five years.

Finalists for management of long-term bonds were Loomis, Sayles & Co., Boston; Scudder, Stevens & Clark Inc., San Francisco; Thorndike, Doran, Paine & Lewis, Boston; Manufacturers Hanover,

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Partner in Century sells share

By Marci Baker

NEW YORK — James Harpel, a founding partner of Century Capital Associates, has sold his partnership interest in the firm to First City Securities, Vancouver, British Columbia.

At the same time, the senior partner has relinquished his role as chief investment officer to Tom Jackson, former president of the $1.8 billion Dreyfus Fund, New York.

Mr. Harpel will continue to serve as a full-time consultant to the investment firm.

First City Securities is a wholly owned subsidiary of the Belzberg family's First City Financial Corp.

Mr. Harpel said the purchase of his partnership interest will give the Belzbergs, who already own a significant interest in Century, a majority ownership in the $2 billion operation.

He quickly added the Canadian financiers' position was a non-operating one. "They are investors only," he said.

Mr. Harpel and Richard Hokin, chief executive officer, founded Century in 1966. "After doing this for 18 years, it was time to do something different," Mr. Harpel explained.

The veteran money manager plans to get more involved in merchant banking activities. Mr. Harpel already has played a role in the leveraged buy-outs of Intermountain Gas of Boise, Idaho, and Congoleum Corp. of Portsmouth, N.H.

He described Mr. Jackson, his successor, as a conservative investor whose skills are expected to mesh neatly with those of the seven remaining Century partners.

Although the firm is generally considered a market timer, Mr. Jackson said he considers Century and himself as oriented toward capital preservation.

He summed up his investment style as a "total return, value-oriented, contrarian approach with a timing overlay."

Although Century's equity performance has fallen off recently, its fixed-income returns

Continued on page 84

Wide World Photos

San Francisco: $85 million of the employees' fund will be indexed.

San Francisco plans $85 million index fund

By Steve Hemmerick

SAN FRANCISCO — The San Francisco City & County Employees' Retirement System has decided to build an $85 million index fund, the beginning of a larger core equity portfolio, that will be managed by Great American Core Investors, Tarrytown, N.Y.

In approving Great American Core, the retirement system passed up some of the index fund managers operating in its own city, including Wells Fargo Investment Advisors and Mellon Capital Management, both of which were finalists.

It also decided against New York-based Bankers Trust Co.'s index fund. In hiring Great American Core, however, San Francisco did hire two former key players in Bankers' index operation, Seth Lynn and Bob Windsor, who left the trust company to become president and vice president of the firm.

The system did choose Bankers Trust as custodian for its $1.6 billion fund, dropping San Francisco-based Crocker Bank.

One reason trustees selected Great American Core to manage the index fund is the Nov. 6 election. On the ballot for city and county voters will be an initiative that would require the fund to drop from its portfolio all stocks of companies that "do business" with South Africa, said Dewitt Bowman, chief investment officer for the San Francisco system.

Great American Core offers a

Continued on page 86

Bank drops trust unit

By Kimberly Blanton

CHICAGO — The First National Bank of Chicago is bowing out of the master trust business and will refer clients down the street to The Northern Trust Co.

It will close its master trust accounts by the end of 1985.

The bank's decision to end the service, which has brought in more than $7 billion in master trust accounts, comes more than two years after a similar decision by Chemical Bank (*Pensions & Investment Age*, March 29, 1982).

When Chemical dropped out of the competition, industry observers predicted others would follow.

Indeed, the two banks' reasons for ending master trust services appear similar. The business is a low-profit one unless a major commitment is made to provide a full range of services and aggressively

Continued on page 83

Frank B. Hall shifts gears on termination

By Kimberly Blanton

BRIARCLIFF MANOR, N.Y. — Frank B. Hall & Co. has withdrawn its request for a spinoff/termination and has applied with the Pension Benefit Guaranty Corp. to terminate the entire plan.

The insurance broker, citing a shortage of cash, has applied to the PBGC to terminate its $52 million pension plan. It expects to recoup $20 million of that.

Crane Co. and Timken Co. also have announced they will terminate their pension plans to skim off excess cash and funnel it into their corporate coffers.

Timken reportedly will recover $45 million from its pension plan termination, to be used for capital improvements. Timken executives could not be reached for comment.

Crane estimated it will gain $35 million to $40 million from the termination of its pension funds for non-bargaining employees at Crane and its Hutig Sash & Door Co. and Medusa Corp. subsidiaries.

Crane financial executives would not return phone calls to discuss the details of the termination.

Current statistics on the total pension assets of Crane and Timken were not available. Crane's total pension assets are about $300 million and Timken's are about $460 million, according to the 1983 Corporate Finance Bluebook.

Stanley Martinez, senior vice president of finance with Frank B. Hall, would not comment on why the firm changed its application.

Under a spinoff/termination, a company segregates its working employees' benefit liabilities from those of retired employees. The excess assets in the plan are placed in the retired employees' section of the plan and revert to the company when that plan is terminated.

Frank B. Hall originally filed prior to the Reagan administra-

Continued on page 86

Late news

Continued from page 1

New York; and BEA Associates Inc., New York.

One or more managers might be selected from the list and given $300 million to $400 million each, according to Mike MacLaren, executive director of the system.

Finalists for intermediate bonds were Pacific Investment Management Co., Newport Beach, Calif.; Miller, Anderson & Sherrerd, Bala Cynwyd, Pa.; Lincoln Capital Management, Chicago; T. Rowe Price Associates, Baltimore; Stein Roe & Farnham, Chicago; and Lehman Brothers, New York.

Each manager selected in this category could receive $200 million to $350 million.

The trustees also are considering having the system's in-house staff manage a considerable amount in bonds and hiring a bond index manager.

They already have chosen a stock index manager, Wells Fargo Investment Advisors, San Francisco, and hired Dimensional Fund Advisors Inc., Chicago, for small-capital stocks.

Trustees are expected to study asset allocation reports from their consultants in mid-November. The consultants are Frank Russell Co., Tacoma, Wash., and Wilshire Associates, Santa Monica, Calif.

Firm cuts dividend

NEW YORK — American Express Co. again cut the dividend on its Money Market Preferred stock.

A 7.55% dividend was set on the second of two $75 million issues of the new security in an auction Oct. 23, below the 8% dividend set in the Oct. 16 auction for the first issue (*see story on page 69*). The dividend will be reset every 49 days.

Babcock joins Callan

SAN FRANCISCO — Phillips Babcock, director-banking relations for American Telephone & Telegraph Co., is joining Callan Associates as senior vice president and head of its Eastern regional office. He will be responsible for the supervision of client relations and the development of new business potential in the Eastern region. He also will be a member of the planning, manager evaluation and client review committee.

Late money movers

• MINNEAPOLIS -- The $200 million Minneapolis Teachers' Retirement Fund Association has hired First Investors Asset Management, New York — its first outside manager — to run $2 million in a junk bond account, according to Newell Gaasedelen, executive secretary and investment manager.

• PHILADELPHIA — The Board of Pensions of the Presbyterian Church has dropped Value Line Asset Management, New York, due to poor performance, said William Irwin Arbuckle II, vice president and treasurer.

N.J. bills advance

TRENTON, N.J. — The two bills that would require the $10.5 billion New Jersey Division of Investment to divest itself of up to 95% of its current holdings (*Pensions & Investment Age*, Oct. 15), were passed through committee last week, according to Christopher Guidette, communications director for the Assembly Majority.

S&P Corp. adds to list

NEW YORK — Standard & Poor's Corp. has added to its list of eligible seller-repurchasers following the introduction of new bankruptcy legislation cleaning up the status of repurchase agreements. Eligibility is now expanded to include government securities dealers and other entities subject to the Bankruptcy Code.

FASB bulletin issued

STAMFORD, Conn. — The Financial Accounting Standards Board has issued its technical bulletin disqualifying instantaneous defeasance as an appropriate means of wiping debt off a company's balance sheet.

The board's bulletin described the method as a borrow-and-invest transaction, whose chief purpose was to realize an immediate gain by taking advantage of the interest-rate spreads between different markets.

A ruling by the board last year on defeasance was intended to allow companies to erase old debt from the balance sheet.

Any gain or loss from such a transaction represents the effects of past changes in interest rates, FASB said.

The technical bulletin is effective for debt issued on or after Sept. 12.

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Cash Management

Cash managers ambivalent to proposals

Fed focusing on daylight overdrafts

By Fred Williams

Proposals under consideration by the Federal Reserve Board to limit or halt daylight overdrafts resulting from high-dollar wire transfers could change the nature of corporate cash management.

"These are not proposed regulations, but proposals which may take the form of regulations, or which could be voluntarily adopted by the industry," said David Humphrey, economist at the Federal Reserve Board in Washington.

A daylight overdraft arises when a sending bank on a large-dollar wire transfer network such as FedWire, CHIPS, CashWire and CHESS, incurs a net debit in its account during the day.

More than $500 billion moves daily on electronic funds transfer systems, with average daily volume of $355 billion on FedWire alone.

At any time, an individual bank could be overdrawn by $4 billion on FedWire and $2 billion on CHIPS, said Mr. Humphrey.

Corporate cash managers, while voicing concern about the proposed limits, are greeting the Fed's proposals with ambivalence; some call it a banking problem while others don't appear to understand what the full impact might be.

Banks, on the other hand, claim the proposals could affect credit and risk management severely, and ultimately change the way banks and corporate treasurers and managers conduct their business.

The comment period closed Oct. 29 on at least three proposals, although late comments will be read, said Mr. Humphrey:

• Sender net debit caps. This would impose a cap on the amount of daylight overdraft that could be incurred by any institution. It most likely will be expressed as a multiple of the total capital of the sending institution.

• Bilateral net credit limits. This would be set by the receiver of funds against the total net debit position any sending institition could build up in the day.

• Finality of payments. Under this proposal, the receiving financial institution would guarantee it would promptly provide the beneficiaries of funds transfers with irrevocable credit for fund transfers.

The Federal Reserve could adopt any or all of these proposals, but a position paper submitted by the Association of Reserve City Bankers has proposed the regulation be voluntary, and that net debit caps be imposed.

It is the prospect of imposing a cap on wire transfers that most disturbs the banking industry because it could result in credit rationing or the inability to fulfill corporate cash managers' wire transfer volume requirements.

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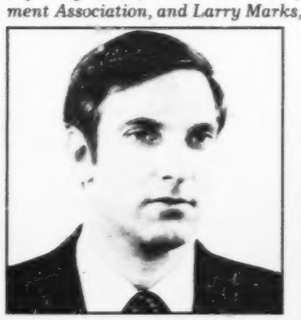
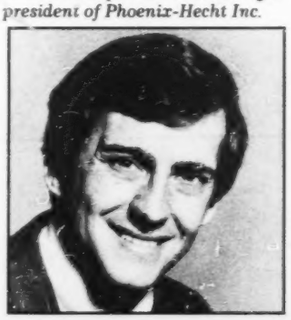
Left: Ray Ruzek, executive director, National Corporate Cash Management Association, and Larry Marks, president of Phoenix-Hecht Inc.





Managers count on banks

Corporate cash managers seem to be relying on their banks to voice opposition to the Federal Reserve's proposed limits on daylight overdrafts, although some recognize the difficulties the proposals could cause.

Several cash management associations contacted by *Pensions & Investment Age* appeared to lack complete knowledge of the Fed's proposals, or were allowing banks to take most of the responsibility for speaking out. None indicated any intent to comment before the expiration of the comment period on Oct. 29.

Peter Hohenstein, president of the Mid-Atlantic Cash Management Association, said his organization planned no action and referred inquiries to Dick Reddy, vice president.

Mr. Reddy said the proposals had the potential to create "chaos" for corporations that rely on wire transactions on a same-day basis. He said the association had not discussed the proposals.

"As for my company though, (Commercial Credit Corp.) it would bring us to a screeching halt. We wouldn't be able to move funds until we knew the bank had incoming funds in the bank; what we are doing is only a small part of what happens at the bank," he said.

"We do over $100 million in wire transfers each day and if our clients couldn't get credit . . . it would have major implications for us."

Bill Twenty, president of the Mid-Illinois Cash Management Association, said he was aware of the proposals and is still in the process of "trying to see what the Fed is doing," but the association has not contemplated taking any action.

"This is the second time the Fed has done something like this," he said.

Mr. Twenty said "we see it as a bank problem . . . We would work with the bank, but we want the banks to realize that we aren't the brunt of the problem, and it is a banking problem and one for them to solve."

The president of a large Texas cash management association was familiar with the proposals but seemed unconcerned. He called them "a crock" and said, "if you are overdrawn, you pay the price, you can't hold up everything because the bank has no covering wire."

William Lefebve, head of the Chicago Cash Management Association government relations committee, said the association has "no position as such" on the proposals.

"Personally, I believe it is going to happen whether I like it or not," he said.

Ray Ruzek, executive director of the National Corporate Cash Management Association, was critical of

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9% decline reported in cash stance

By Richard J. Gillespie

NEW YORK — The cash and short-term investment holdings of the 100 largest industrial corporations declined by 9% in the first six months of the year.

The aggregate cash holdings of the largest 100 industrial corporations totaled $67.1 billion at the end of June, down from $74 billion at year-end 1983.

The figures, released by Wright Investors' Service of Bridgeport, Conn., seem to confirm that the buildup in cash and short-term investment portfolios, so strong in 1983, has slowed in line with other economic indicators.

A report on credit trends released by Salomon Brothers noted increases in internal cash generation enabled U.S. corporations to moderate their external borrowing requirements in the first half.

More recently, however, internal cash generation has slowed, and the figures indicate corporations might be drawing on their cash reserves.

"Increases in internal cash generation no longer are keeping up with increases in investment expenditures," stated a credit report released Sept. 28 by the investment banking concern.

But overall, holdings still were 19% ahead of the $53.8 billion aggregate held 12 months earlier, the figures compiled by Wright Investors' Service showed.

General Motors Corp. had more than $10 billion in cash and short-term investments at the end of June, the largest cash and short-term investment portfolio seen since the survey was first carried out last year.

The automaker's $10.2 billion also represented growth of 65% on the $6.2 billion held at the end of 1983, and a 226% increase on its holdings at the end of 1982.

According to Lewis Wirshba, manager of corporate finance and

Continued on page 21

Company	Cash & short-term investments ($ millions) 1984	1983	% change '84 vs. '83
10 largest cash portfolios (ranked by cash position)			
General Motors	$10,217	$5,413	88.75
Ford Motor	4,843	2,487	94.71
IBM	4,260	4,446	−4.18
Exxon Corp.	4,200	3,448	21.81
General Electric	2,414	2,638	−8.49
Std. Oil (Ind.)	2,050	1,928	6.33
Chrysler	2,026	1,571	28.98
Mobil Corp.	1,698	1,328	27.86
Chevron	1,691	2,564	−34.05
Texaco Inc.	1,550	2,031	−23.68
10 largest increases in cash and short-term investments			
IC Industries	$ 104	$ 16	546.88
Time Inc.	372	58	537.56
Deere & Co.*	225	36	525.28
Martin Marietta	19	4	332.56
Philip Morris	102	29	250.00
R.J. Reynolds Ind.	666	193	245.08
Diamond Shamrock	128	44	188.94
Boeing	1,371	551	148.82
Esmark*	184	76	143.18
Anheuser-Busch	224	92	143.15
10 largest decreases in cash and short-term investments			
LTV	$ 0	$311	−100.00
Tenneco	13	92	−85.87
McDonnell Douglas	39	195	−80.00
Gulf & Western*	125	487	−74.37
General Dynamics	78	243	−67.90
U.S.Steel	213	663	−67.87
Ashland Oil	73	193	−62.44
Coastal Corp.	52	105	−50.95
Ralston Purina	54	101	−46.63
Champion Int'l.	48	85	−43.18

* Top 100 industrial companies

* Quarter ended 4/30/84

Data computed by the corporate and investment data bank maintained by Wright Investors' Service, Bridgeport, Conn.

Fund	Assets ($ mil.)	Avg. daily maturity	7-day avg. yield	30-day avg. yield
Taxable funds				
Federated Securities (U.S. Govt. Securities)	5,625	46	10.1%	10.4%
Shearson Lehman-Amex (TempFund)	5,893	32	10.7	11.0
Goldman, Sachs (ILA Prime Obligations)	5,239	36	10.7	11.0
Donoghue's Money Fund Average		**40**	**10.2**	**10.4**
Tax-free funds				
Federated Securities (Tax-Free Trust)	2,984	57	6.0	6.0
Nuveen Tax-Exempt (Money Market Fund)	1,441	59	6.2	6.2
Shearson Lehman-Amex (Muni Fund)	1,068	30	6.1	6.1
Donoghue's Tax-Free Money Fund Average		**63**	**6.0**	**6.0**

This chart, a new feature of *Pensions & Investment Age*'s cash management section, is a listing of current yields on certain money market funds. The money market funds selected were recommended by The Donoghue Organization as the six funds most representative of corporate short-term portfolios. The Donoghue Organization is located in Holliston, Mass.

9% decline . . .

Continued from page 19

investments, the huge size of GM's cash reserves has not changed the way it carries out its short-term investment program.

The portfolio is invested in Treasury bills, short-term government notes, prime commercial paper, high-quality certificates of deposit and some municipals and short-term federal agencies, along with collateralized repurchase agreements.

"The prime determinant of the portfolio's characteristics is the ebb and flow of corporate cash," said Mr. Wirshba, who heads up a team of three full-time traders for the automaker.

At the other exteme, The LTV Corp. reported no cash or short-term investments on its second-quarter statement.

"I was surprised by that," said Hari Kapadia, a vice president with Wright Investors' Service, who double-checked the figures.

Robert Esler, assistant treasurer at the giant steel, aerospace/defense and energy concern, discounted the figure as an aberration.

"This could be interpreted as no cash resources or poor planning, but neither is true," he commented. "From the treasurer's point of view, this represents good cash management."

When LTV is in a net borrowing position, Mr. Esler said, he matches receipts against disbursements to the greatest possible extent. The company only draws on corporate bank lines when it is absolutely necessary, he said.

At the same date, June 30, LTV had unused lines of credit amounting to $475 million, he noted in pointing out there was plenty of credit available.

"We write checks and send them out to vendors, and until they are deposited and cleared, we do not put currency into bank accounts," he said.

"So we can have negative cash balances, in which case the uncleared funds would be classified as payables. From a cash management point of view, I see absolutely no need to borrow money and pay interest before you need it," he said.

At the end of July, LTV had $16 million in cash, and at the end of August, it had $46 million, Mr. Esler added.

Along with GM, other automakers also showed burgeoning funds in cash and short-term investments.

Ford Motor Co. had the largest percentage rate of growth among automakers during the 12-month period ended June 30, with $4.8 billion compared with $2.5 billion last year.

But even with this growth, GM and Ford ranked 18th and 19th on a ranking of all 100 companies.

The greatest percentage growth rate was recorded by IC Industries Inc., the cash and short-term investment portfolio of which rose 547% to $104 million; Time Inc.'s holdings were increased to $372 million from $58 million recorded one year earlier.

Companies with declines included Tenneco Inc., McDonnell Douglas Corp., Gulf & Western Industries Inc., General Dynamics Corp. and U.S. Steel Corp. ■

Managers . . .

Continued from page 19

the Fed's method of putting the regulations out for public comment. He said the corporate cash manager wasn't aware of the move until well into the comment period; by that time, it was too late for most to develop well-thought-out comments, he said.

The Fed issues information to banks and ignores corporations, he said, and that might be why corporate treasurers and cash managers haven't commented.

"They (the Fed) say, 'Yes, we want your input' and then they impose an unreasonably short time limitation," he said.

While the proposals have created concern, it is not certain that there even will be regulations in the end.

Kit Needham, associate director and manager of the operations and automation division of the American Bankers Association, said the Fed is trying to raise the consciousness of banks about the problem of daylight overdrafts.

"They know it didn't happen in six months and that it won't go away in six months," she said. "We are hoping for more time. We are not so sure the Fed will regulate. The smarter they get about this, the more they recognize things could come to a screeching halt."

She said the Fed probably will take a wait-and-see attitude toward the problem and see what the banking industry does before taking any definite action.

"If the banking industry demonstrates a clear, consistent effort to reduce the amount of overdraft . . . the Fed will probably hold off until we demonstrate that we can't do it," said Ms. Needham. ■

— By Fred Williams

Daylight . . .

Continued from page 20

it makes us rethink our credit extension policies," he said.

The biggest question, Mr. Romero said, is the one of finality of payments.

"We haven't gotten a clear interpretation on it from the Fed, but the inference is that it will move from the Fed to each receiving bank," he said. The Federal Reserve now assumes the risk when a sender transmits funds over the FedWire to a receiving institution.

Mr. Romero said problems could arise if individual banks were required to have bilateral letters of credit with each bank they do business with.

He said the proposed regulations "would change the liability and credit extension policies of banks."

Steve Gibson, president of GE Network Consultants Inc., designer of the software used in 30% of all FedWire transfers, said regulations limiting daylight overdraft exposures could lead to significant retooling of audit trail monitoring software and other equipment.

"We're facing some major software changes depending on the regulations," Mr. Gibson said. "It means that banks have to monitor their positions and balances on a same-day basis, perhaps even more frequently."

He said cash managers might be faced with monitoring their flow of funds on a continuous basis rather than at the end of the day, and in the morning before investing short-term funds.

Because banks probably would be required to cover their positions throughout the day, proposed regulations would affect which customers are allowed access to the banks' wire transfer system.

"We would have to give the banks a tool to monitor bank transfers on a continuous basis," Mr. Gibson said. "They have something like that now, but if they are not allowed to exceed a certain limit, they could be facing trouble. If they make it to where you can't exceed a certain limit and you have to stop in the middle of a transaction because you have reached your limit, then we will have a problem.

"This will make cash management a more complex procedure." ■

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